

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Grand Traverse Metro Fire Department</u>	County <u>Grand Traverse</u>
Audit Date <u>December 31, 2005</u>	Opinion Date <u>May 9, 2006</u>	Date Accountant Report Submitted To State: <u>June 23, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>1010 South Garfield Avenue</u>	City <u>Traverse City</u>	State <u>MI</u>	ZIP <u>49686</u>
Accountant Signature  			

# **Grand Traverse Metro Fire Department**

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**Financial Report  
with Supplemental Information  
December 31, 2005**

# Grand Traverse Metro Fire Department

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## Independent Auditor's Report

To the Board  
Grand Traverse Metro Fire Department

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grand Traverse Metro Fire Department (the "Fire Department") as of and for the year ended December 31, 2005, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fire Department as of December 31, 2005 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

May 9, 2006



A worldwide association of independent accounting firms

Our discussion and analysis of the Grand Traverse Metro Fire Department's financial performance provides an overview of the Fire Department's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Fire Department's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- Contributions from local governmental units increased by approximately \$127,000 this year. In addition, the General Fund transferred approximately \$807,000 in the current year to the Public Improvement Fund, versus \$300,000 in the prior year. This resulted in a fund balance decrease of approximately \$100,000 in the General Fund.
- Total net assets related to the Fire Department's governmental activities increased by approximately \$513,000. The unrestricted portion of net assets increased by approximately \$155,000.
- The Fire Department continued a long-term public improvement initiative by setting aside an additional \$807,000 in the Public Improvement Fund this year. In combination with the initial \$300,000 transfer last year, the Public Improvement Fund was able to finance approximately \$982,000 of improvements during 2005.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Fire Department's operations in more detail than the government-wide financial statements by providing information about the Fire Department's most significant funds.

# Grand Traverse Metro Fire Department

## Management's Discussion and Analysis (Continued)

### The Fire Department as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year.

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current assets	\$ 918,038	\$ 752,577
Noncurrent assets	3,224,669	2,446,734
Total assets	4,142,707	3,199,311
<b>Liabilities</b>		
Current liabilities	293,641	73,497
Long-term liabilities	210,000	-
Total liabilities	503,641	73,497
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	2,777,959	2,419,913
Unrestricted	861,107	705,901
Total net assets	<u>\$ 3,639,066</u>	<u>\$ 3,125,814</u>

The Fire Department's combined net assets increased 16.4 percent from a year ago, increasing from \$3,125,814 to \$3,639,066.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by \$155,206. This represents an increase of approximately 22.0 percent. The current level of unrestricted net assets stands at \$861,107, or about 57.4 percent of expenditures. This is within the targeted range set by the Fire Department Board during its last budget process.

# Grand Traverse Metro Fire Department

## Management's Discussion and Analysis (Continued)

### The Fire Department as a Whole (Continued)

The following table shows, in a condensed format, the net assets during the current year and as compared to the prior year.

	Governmental Activities	
	2005	2004
<b>Revenue</b>		
Program revenue - Charges for services	\$ 249,140	\$ 171,178
General revenue:		
Contribution from local governments	1,734,821	1,607,498
Unrestricted investment earnings	23,728	6,670
Other revenue	4,927	14,904
Total revenue	2,012,616	1,800,250
<b>Program Expenses</b>		
Public safety:		
Personnel	818,723	832,726
Commodities	56,344	81,284
Contractual services	49,295	31,670
Depreciation expense	240,335	235,250
Other charges	328,292	305,853
Interest on long-term debt	6,375	-
Total program expenses	1,499,364	1,486,783
<b>Change in Net Assets</b>	<b>\$ 513,252</b>	<b>\$ 313,467</b>

### Governmental Activities

The Fire Department's total governmental revenues increased by approximately \$212,000. The increase, which represents 11.8 percent, was primarily due to the continuing increases in all revenue areas, including contributions from local governments, building permits, and interest income.

Expenses remained consistent as compared to prior year.

# **Grand Traverse Metro Fire Department**

## **Management's Discussion and Analysis (Continued)**

### **The Fire Department's Funds**

Our analysis of the Fire Department's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Fire Department as a whole. The Fire Department board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as contributions from local governments based on their special tax millages. The Fire Department's major funds for 2005 include the General Fund and the Public Improvement Fund.

The General Fund pays for most of the Fire Department's governmental services. The most significant is fire personnel, which incurred expenses of approximately \$827,000 in 2005.

The Public Improvement Fund records funds designated by the board and transferred from the General Fund. The amount transferred from the General Fund is supported by a capital improvement plan, including specific capital outlay approved by the Fire Department board. During the current year, this amounted to \$806,542.

### **General Fund Budgetary Highlights**

Over the course of the year, the Fire Department made budget amendments to line items within cost centers. The townships agreed to reduce their budgeted contributions by \$329,000. This partially resulted in three cost center amendments during the year. A \$60,000 increase to personnel costs resulted from hiring additional fire inspectors, \$71,000 increase to the contingency, and \$455,000 reduction for capital outlay/repairs. Cost centers overall stayed below budget, with the exception of an unbudgeted transfer to the Public Improvement Fund of \$806,542 and additional personnel costs and contractual services costs of \$8,347 and \$6,395, respectively. This caused the General Fund's fund balance to decrease from \$417,467 a year ago to \$317,679 at December 31, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the Fire Department had \$3,202,959 invested in a broad range of capital assets, including buildings, furnishings, fire equipment, and vehicles. In September 2005, the Fire Department began a remodel construction project for a new fire station, which included issuing debt for \$425,000. The remodel project was bid out to contractors in September 2005. However, the bids came in nearly \$200,000 over budget. As such, the board did not approve the bids and has put the project on hold awaiting further decisions regarding the Fire Department's strategic plan. It is the Fire Department's hope that the remodel project will be completed in early 2007.



# **Grand Traverse Metro Fire Department**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets**

The 2006 calendar year brings with it new challenges for the Fire Department.

The Fire Department continues to embark on an ambitious strategic plan. The plan calls for three new stations to be built in the next 10 years. Fire apparatus will need to be purchased and housed in these stations. Full-time staffing at each of our stations will be required in the near future. The implementation of this plan will necessitate much discussion on the financing of this expansion. The Fire Department's budget for next year calls for an increase of contributions from local governments. The member townships are hesitant to increase millages to pay for expansion. A discussion on bonding is a next step.

On March 28, 2006, the outstanding debt of \$425,000, plus interest, was paid off by the Fire Department. This payoff was possible as excess funds became available due to the delay in monies spent for the remodel project for the new fire station. Once a contractor bid is approved by the board, it is the Fire Department's plan to obtain partial financing to pay for the station remodel.

In 2006, the Fire Department has presented to each of the townships plans for reorganizing under Michigan Public Act 57 to become a Fire Authority. The townships are currently in the process of discussing the specifics of the reorganization and the impact this reorganization would have on their respective governments as well as the local community. It is the Fire Department's hope that a decision regarding the reorganization can be made by the end of 2006.

### **Contacting the Fire Department's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Fire Department's finances and to show the Fire Department's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Fire Department office.

# Grand Traverse Metro Fire Department

## Statement of Net Assets December 31, 2005

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 781,501
Receivables - Net (Note 4)	45,895
Prepaid costs	90,642
Investment in joint venture (Note 11)	21,710
Capital assets - Net (Note 5):	
Depreciable assets	2,035,322
Nondepreciable assets	<u>1,167,637</u>
Total assets	4,142,707
<b>Liabilities</b>	
Accounts payable	26,040
Accrued and other liabilities	22,109
Compensated absences - Due within one year	30,492
Noncurrent liabilities (Note 7):	
Due within one year	215,000
Due in more than one year	<u>210,000</u>
Total liabilities	<u>503,641</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	2,777,959
Unrestricted	<u>861,107</u>
Total net assets	<u><u>\$ 3,639,066</u></u>

# Grand Traverse Metro Fire Department

## Statement of Activities Year Ended December 31, 2005

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Governmental Activities
<b>Functions/Programs</b>			
Primary government -			
Governmental activities:			
Public safety:			
Personnel	\$ 818,723	\$ 242,935	\$ (575,788)
Commodities	56,344	-	(56,344)
Contractual services	49,295	-	(49,295)
Depreciation expense	240,335	-	(240,335)
Other charges	328,292	6,205	(322,087)
Interest on long-term debt	6,375	-	(6,375)
Total primary government	<u>\$ 1,499,364</u>	<u>\$ 249,140</u>	(1,250,224)
General revenues:			
Contribution from local governmental units			1,734,821
Unrestricted investment earnings			23,728
Miscellaneous			4,927
Total general revenues			<u>1,763,476</u>
<b>Change in Net Assets</b>			513,252
<b>Net Assets - Beginning of year</b>			<u>3,125,814</u>
<b>Net Assets - End of year</b>			<u><b>\$ 3,639,066</b></u>

# Grand Traverse Metro Fire Department

## Governmental Funds Balance Sheet December 31, 2005

	General	Public Improvement	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 167,469	\$ 614,032	\$ 781,501
Receivables - Net	45,895	-	45,895
Prepaid costs	90,642	-	90,642
Due from other funds	55,447	-	55,447
Total assets	<u>\$ 359,453</u>	<u>\$ 614,032</u>	<u>\$ 973,485</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 26,040	\$ -	\$ 26,040
Accrued and other liabilities	15,734	-	15,734
Due to other funds	-	55,447	55,447
Total liabilities	41,774	55,447	97,221
<b>Fund Balances</b>			
Reserved for prepaid costs	90,642	-	90,642
Unreserved, reported in:			
General Fund	227,037	-	227,037
Special Revenue Funds	-	558,585	558,585
Total fund balances	<u>317,679</u>	<u>558,585</u>	<u>876,264</u>
Total liabilities and fund balances	<u>\$ 359,453</u>	<u>\$ 614,032</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Investment in joint venture used in governmental activities that is not financial resources and is not reported in the funds	21,710
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,202,959
Accrued interest payable is not included as a liability in governmental funds	(6,375)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(455,492)
Net assets of governmental activities	<u>\$ 3,639,066</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Grand Traverse Metro Fire Department

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2005

	General	Public Improvement	Total Governmental Funds
<b>Revenue</b>			
Contribution from local governmental units	\$ 1,734,821	\$ -	\$ 1,734,821
Licenses and permits	43,687	-	43,687
Federal grants	33,784	-	33,784
Interest and rentals	20,758	9,175	29,933
Other	170,391	-	170,391
Total revenue	2,003,441	9,175	2,012,616
<b>Expenditures - Current</b>			
Public safety:			
Personnel	826,618	-	826,618
Commodities	56,344	-	56,344
Contractual services	49,295	-	49,295
Other charges	288,091	-	288,091
Capital outlay/repairs	76,339	982,132	1,058,471
Total expenditures	1,296,687	982,132	2,278,819
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	706,754	(972,957)	(266,203)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	806,542	806,542
Transfers out	(806,542)	-	(806,542)
Issuance of debt	-	425,000	425,000
Total other financing sources (uses)	(806,542)	1,231,542	425,000
<b>Net Change in Fund Balances</b>	(99,788)	258,585	158,797
<b>Fund Balances - Beginning of year</b>	417,467	300,000	717,467
<b>Fund Balances - End of year</b>	<u>\$ 317,679</u>	<u>\$ 558,585</u>	<u>\$ 876,264</u>

# Grand Traverse Metro Fire Department

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005**

**Net Change in Fund Balances - Total Governmental Funds** \$ 158,797

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	1,023,381
Current year allocation of depreciation expense	(240,335)

Bond proceeds are not reported as financing sources on the statement of activities	(425,000)
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Investment in joint venture loss reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds	(5,111)
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Decreases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	7,895
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Accrued interest payable is not included as a liability in governmental funds	<u>(6,375)</u>
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**Change in Net Assets of Governmental Activities** \$ 513,252

# **Grand Traverse Metro Fire Department**

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## **Notes to Financial Statements December 31, 2005**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Grand Traverse Metro Fire Department (the "Fire Department") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Fire Department.

#### **Reporting Entity**

The Fire Department is governed by an appointed three-member board. The accompanying financial statements represent the activities of the Fire Department.

The Fire Department is a joint venture between Acme, East Bay, and Garfield Townships. The Fire Department's operating expenses are subsidized annually by millages levied in each township.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Township subsidies and other items not properly included among program revenues are reported instead as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

# Grand Traverse Metro Fire Department

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## Notes to Financial Statements December 31, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: contributions from local governmental units, plan reviews, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The Fire Department reports the following major governmental funds:

**General Fund** - The General Fund is the Fire Department's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Public Improvement Fund** - The Public Improvement Fund is where the Fire Department has appropriated funds for future capital outlay to improve and expand the Fire Department.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include charges for plan reviews and inspections of related buildings. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all contributions from local governmental units.



# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables** - All trade and intergovernmental receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include buildings, furnishings, fire equipment, and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Fire Department as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	7 to 50 years
Vehicles	5 to 15 years
Office furnishings	5 to 12 years
Other tools and equipment	5 to 10 years

**Compensated Absences (Vacation and Personal Days)** - It is the Fire Department's policy to permit employees to accumulate earned but unused vacation pay and personal days benefits. Both vacation pay and personal days are accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. During 2005, the net change was \$7,895.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Fire Department oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Fire Department charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2005 is as follows:

Accumulated balance at January 1, 2005	\$ -
Current year building permit revenue	43,687
Related expenses - Direct costs	<u>(43,687)</u>
Accumulated balance at December 31, 2005	<u>\$ -</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Fire Department has designated four banks for the deposit of its funds. The investment policy adopted by the board, which is not in accordance with Public Act 196 of 1997, has authorized all of the investments in the state authority as listed above. The Fire Department's deposits and investment policies are not in accordance with statutory authority.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 3 - Deposits and Investments (Continued)

The Fire Department's cash is subject to custodial credit risk of bank deposits, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned to it. The Fire Department does not have a deposit policy for custodial credit risk. At year end, the Fire Department had \$366,893 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Fire Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fire Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Receivables

Receivables as of year end for the Fire Department's General Fund are as follows:

Receivables:

Accounts	\$ 2,849
Intergovernmental	<u>43,046</u>
Net receivables	<u><u>\$ 45,895</u></u>

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 5 - Capital Assets

Capital asset activity of the Fire Department's governmental activities was as follows:

<b>Governmental Activities</b>	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 182,760	\$ 200,691	\$ -	\$ 383,451
Construction in progress	-	784,186	-	784,186
Subtotal	182,760	984,877	-	1,167,637
Buildings and improvements	815,073	5,157	-	820,230
Vehicles	2,840,846	-	117,709	2,723,137
Office furnishings	45,125	-	-	45,125
Other tools and equipment	377,744	33,347	-	411,091
Subtotal	4,078,788	38,504	117,709	3,999,583
Accumulated depreciation:				
Buildings and improvements	139,956	22,455	-	162,411
Vehicles	1,514,564	171,632	117,709	1,568,487
Office furnishings	25,698	4,984	-	30,682
Other tools and equipment	161,417	41,264	-	202,681
Subtotal	1,841,635	240,335	117,709	1,964,261
Net capital assets being depreciated	2,237,153	(201,831)	-	2,035,322
Net capital assets	<u>\$ 2,419,913</u>	<u>\$ 783,046</u>	<u>\$ -</u>	<u>\$ 3,202,959</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - Public safety	<u>\$ 240,335</u>
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# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Public Improvement Fund	\$ <u>55,447</u>

These balances result from the time lag between the dates that reimbursable expenditures occur.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Public Improvement Fund	\$ <u>806,542</u>

The transfers from the General Fund to the Public Improvement Fund represents the movement of resources to be used to finance current and future public improvements.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2005

### Note 7 - Long-term Debt

Installment purchase agreements are direct obligations and pledge the full faith and credit of the Fire Department.

The Fire Department has the following long-term debt outstanding as of December 31, 2005:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Installment purchase agreements - Purchase Money Mortgage	4.5%	\$120,000 - \$125,000					
Amount of issue: \$245,000							
Maturing through July 1, 2007			\$ -	\$ 245,000	\$ -	\$ 245,000	\$ 125,000
Land Contract	4.5%	\$20,000 - \$110,000					
Amount of issue: \$180,000							
Maturing through July 1, 2007			-	180,000	-	180,000	90,000
Total governmental activities			<u>\$ -</u>	<u>\$ 425,000</u>	<u>\$ -</u>	<u>\$ 425,000</u>	<u>\$ 215,000</u>
Compensated absences			<u>\$ 38,387</u>	<u>\$ -</u>	<u>\$ (7,895)</u>	<u>\$ 30,492</u>	<u>\$ 30,492</u>

Total interest expense for the year was \$6,375. Annual debt service requirements to maturity for the above note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	<u>\$ 425,000</u>	<u>\$ 11,003</u>	<u>\$ 436,003</u>

These installment purchase agreements were paid in full on March 29, 2006.

# **Grand Traverse Metro Fire Department**

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## **Notes to Financial Statements December 31, 2005**

### **Note 8 - Risk Management**

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Fire Department has purchased commercial insurance for employee injuries and medical benefits, and participates in the Michigan Township Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Township Participating Plan program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the plan that the plan uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Fire Department.

### **Note 9 - Defined Contribution Pension Plans**

The Fire Department provides pension benefits to all of its full-time employees and the part-time fire coordinator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Fire Department, the Fire Department contributes 13.5 percent of the full-time employees' gross earnings. Employee contributions for each employee plus interest allocated to the employee's account are fully vested upon early retirement, termination of service, death, disability, or normal retirement.

The Fire Department's total payroll during the current year was \$801,090. The current year contribution was calculated based on covered payroll of \$529,887, resulting in an employer contribution of \$70,449 and employee contributions of \$32,575.

The Fire Department also offers a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 to all employees. The plan is administrated by ING Life Insurance and Annuity Company. The plan allows employees to defer a portion of their salary until the employees' death, termination, retirement, or disability. During the year ended December 31, 2005, employees contributed \$13,569.

# Grand Traverse Metro Fire Department

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## Notes to Financial Statements December 31, 2005

### **Note 10 - Other Postemployment Benefits**

The Fire Department has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Fire Department pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Fire Department's group rates. As of December 31, 2005, no retirees are eligible for postemployment health benefits. The Fire Department obtains health care coverage through private insurers.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

### **Note 11 - Joint Venture**

The Fire Department entered into an agreement, creating the Grand Traverse County Fire Administrative Board, effective January 1, 1981. This continues on a year-to-year basis by mutual agreement with Grand Traverse County and Grand Traverse Rural Fire Department. The Fire Department's equity interest is 36.3 percent at December 31, 2005. This equity interest is adjusted annually and the 2005 equity interest balance is \$21,710.

The Fire Department also provides payroll processing services for the joint venture. At December 31, 2005, \$12,365 was due from the joint venture.



## **Required Supplemental Information**

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# Grand Traverse Metro Fire Department

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 417,467	\$ 417,467	\$ 417,467	\$ -
<b>Resources (Inflows)</b>				
Contribution from local governmental units	2,064,126	1,734,821	1,734,821	-
Federal sources	-	-	33,784	33,784
Fees and permits	25,000	25,000	43,687	18,687
Interest income	11,480	11,480	20,758	9,278
Other	-	-	170,391	170,391
Total resources (inflows)	2,100,606	1,771,301	2,003,441	232,140
<b>Charges to Appropriations (Outflows)</b>				
Public safety:				
Personnel	758,244	818,244	826,618	8,374
Commodities	80,900	80,900	56,344	(24,556)
Contractual services	42,900	42,900	49,295	6,395
Other charges	339,382	334,382	288,091	(46,291)
Contingency	41,480	112,375	-	(112,375)
Capital outlay/repairs	837,500	382,500	76,339	(306,161)
Transfers to other funds	-	-	806,542	806,542
Total charges to appropriations (outflows)	2,100,406	1,771,301	2,103,229	331,928
<b>Fund Balance - End of year</b>	<b>\$ 417,667</b>	<b>\$ 417,467</b>	<b>\$ 317,679</b>	<b>\$ (99,788)</b>

# Grand Traverse Metro Fire Department

## Required Supplemental Information Budgetary Comparison Schedule Major Public Improvement Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
<b>Resources (Inflows)</b>				
Interest income	3,000	3,000	9,175	6,175
Issuance of debt	-	-	425,000	425,000
Transfer from other funds	<u>906,542</u>	<u>906,542</u>	<u>806,542</u>	<u>(100,000)</u>
Total resources (inflows)	909,542	909,542	1,240,717	331,175
<b>Charges to Appropriations (Outflows) -</b>				
Capital outlay	<u>750,000</u>	<u>750,000</u>	<u>982,132</u>	<u>232,132</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 459,542</b></u>	<u><b>\$ 459,542</b></u>	<u><b>\$ 558,585</b></u>	<u><b>\$ 99,043</b></u>

# Grand Traverse Metro Fire Department

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## Note to Required Supplemental Information Year Ended December 31, 2005

### Note - Budgetary Information

**Budgetary Information** - The annual budget is prepared by management and adopted by the Fire Department board; subsequent amendments are approved by the Fire Department board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and the Public Improvement Fund, except for the practice of budgeting transfers and debt issuance as revenues and expenditures versus other financing sources/uses. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Fire Department board is included in the required supplemental information.

During the year, the Fire Department incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Transfer to other fund	\$ -	\$ 806,542
Public Improvement Fund - Capital outlay	750,000	982,132

May 9, 2006

To the Fire Department Board  
Grand Traverse Metro Fire Department

In planning and performing our audit of the financial statements of Grand Traverse Metro Fire Department (the "Fire Department") for the year ended December 31, 2005, we considered the Fire Department's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fire Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report contains items considered to be reportable conditions as defined above, as well as other items we feel warrant your consideration.

## **2005 ITEMS**

**Cash Receipt Process** - During 2005, the secretary prepared the cash receipt and the deposit slip and the accountant took the deposit to the bank, posted cash receipts to the general ledger and reconciled the bank statement. Due to the accountant having control over almost the entire process for cash receipts, there is a lack of segregation of duties. We confirmed the major revenue sources and performed analytical procedures on the remaining revenue balances. These procedures did not result in any material differences. However, a change in this process is required in order to protect the accountant and the assets of the Fire Department. We recommend that a comparison between cash receipts received by the secretary and the cash receipts posted to the general ledger by the accountant be completed at least monthly.

**Budget** - When comparing budget to actual, we noted that the Medicare line item was significantly under budget. The budgeted amount was \$20,843 and the actual was \$6,039. We also noted that operating transfers were not budgeted between the General and Public Improvement Funds. We recommend the Fire Department review budgeted amounts regularly through the year for reasonableness. According to state law, the budget can be amended during the year, but only up until year-end.

**Deposit/Investment Policy** - The written deposit/investment policy, adopted by the board in 1998, is not in compliance with state law under Public Act 196 of 1997. In addition, GASB No. 40, *Deposits and Investment Risk Disclosures*, recommends that the deposit/investment policy address any deposit and investment-related risk the governmental unit is subject. If the policy does not cover that risk, GASB No. 40 requires that this fact be disclosed. Because the Fire Department has uninsured deposits, a policy should be created to address the acceptable limits of uninsured funds. Current deposits held by the Fire Department are not considered illegal under state law. We recommend the board adopt a new deposit/investment policy that complies with both Public Act 196 of 1997 and GASB No. 40 and review deposit/investment allocations biannually to ensure compliance with the policy.

**2004 ITEMS**

**Assigned Fire Staff** - Garfield and Acme Townships have chosen to have direct part-time fire staff assigned to the Fire Department. The Grand Traverse Metro Fire Department schedules these staff, pays their payroll, and considers them employees. The townships reimburse the Fire Department for the payroll costs. During 2004 and 2005, the two townships were treated differently. Garfield Township ran through the income statement (showing revenue and expense) and Acme Township utilized a balance sheet account to show the inflows and outflows of cash. Acme Township's activity was adjusted to be recorded as revenue and expense. The net impact is \$0 to fund balance due to the expense being 100 percent reimbursed, however, accounting principles require that revenue and expense be reported gross. Due to the fire staff being considered employees of the Fire Department and utilized in the operations of the Fire Department, both townships' employees should be shown as expense on the Fire Department's books. The reimbursement should then be considered revenue. We noted that effective January 1, 2006 the Fire Department has budgeted these payroll items separately as revenue and expense and will be recorded as such in the 2006 financial statements.

*Status* – Implemented in 2006

**Multiple Entity Clarification** - During review of the 2004 board minutes we found a reference made to a lawsuit. This lawsuit related to the Grand Traverse Rural Fire Department and was incorrectly included in the Grand Traverse Metro Fire Department's board minutes. There was some confusion as to the separate entities: Grand Traverse Metro Fire Department, Grand Traverse Rural Fire Department and the Office Administration. It was difficult to understand the differences and distinguish activities between the entities.. We recommend changing letterhead to make the difference more pronounced and make an effort to separate the entities in the board meetings and minutes.

*Status* – In process

**Network Password** - In 2005, the Fire Department put into place a system of forcing passwords to change every 150 days. The passwords are given to the system administrator for safe keeping. While changing passwords is a good first step, the passwords should not be kept by the system administrator. This would let the system administrator log in as a different employee and perform functions as that employee. We recommend that the system administrator not keep the passwords. If a user forgets their password, the system administrator resets to a temporary password that the user must change at the next login.

*Status* – In process

**Cancelled Checks** - We noted that Fifth Third returns the cancelled checks with the bank statement. We recommend that the Fire Department request the micro-mini cancelled check copies instead of the actual cancelled checks.

*Status* – Completed

**Board Minutes** - The board minutes show a dollar amount of claims (cash disbursements), however, it does not list the check numbers approved. We recommend the board minutes include the actual check numbers that are approved at each meeting.

*Status – Completed*

**Cash Disbursements** - During testing of cash disbursements, we noted that check #8014 to West Shore Fire Repair, Inc for \$4,710 was dated 7/22/04 per review of the yellow copy attached to the invoices. Upon tracing the check to the bank statement, we found that the check cleared on 6/25/04 – before the check was written. Upon further review of checks issued in June – it appears all were issued with an incorrect date that should have been 6/22/04. The appropriate expenditures were included in the financial statements as of 12/31/04. We recommend that the date be noted when printed and reviewed before signing.

*Status – Completed*

**Billing Invoices** - In 2004, the bookkeeper did not maintain copies of the billing invoices sent to the participating townships (East Bay, Acme, and Garfield) or record receivables to track unpaid balances. There was no support for the revenue amounts billed. We recommend that internal copies of the billing invoices are maintained for the Fire Department's records, including the calculation for each township's fee and recording a receivable to track payment.

*Status – Completed*

**Payroll** - During testing of payroll controls, we found that the procedure in place is to have either the Chief or Deputy Chief review the payroll edit report prior to payroll checks being run. We did not note a sign-off or any documentation that this is being performed. We did note that the payroll checks had to be signed by a board member. The review process is critical due to the extent of procedures performed by the bookkeeper (processing the payroll, printing payroll checks, and signing payroll checks). We recommend that the review process of the payroll edit report be documented with an initial and date by the Chief or Deputy Chief.

*Status – Completed*

**New Pronouncements** - The Governmental Accounting Standards Board (GASB) has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (and, as discussed below, there are incentives to funding the benefits).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits.

It will be effective for the Fire Department for the fiscal year ending December 31, 2009. Remember that planning to make the ARC generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above date.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the ARC. In addition to the normal fairness issue of paying for a service as you use it, GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Therefore, funding the contribution can actually reduce your long run cost.

Additionally, the AICPA issued statements on auditing standards (SAS 104 – SAS 111) that will substantially affect the auditing process. The effective date for the Fire Department will be for the audit of the financial statements for after the year ending December 31, 2007. At this point, the impact of these standards on our auditing process is being evaluated and we will continue to keep you apprised of the status.

**Exposure Draft on Proposed Statement on Auditing Standards** - On September 1, 2005, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued an Exposure Draft of a proposed Statement on Auditing Standards (SAS), which would supersede SAS 60, *Communication of Internal Control Related Matters Noted in an Audit*. The proposed effective date for the Fire Department would be for the year ended December 31, 2006.

This exposure draft establishes standards and provides guidance to enhance the auditor's communication responsibility to the audit committee or its equivalent concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The exposure draft defines internal control deficiency, significant deficiency (this term replaces and eliminates the term "reportable condition"), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or its equivalent in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

This report is intended solely for the information and use of the Fire Department Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**PLANTE & MORAN, PLLC**



Sharon Vargo, CPA  
Partner

Enclosure

C: Patrick Parker, Chief